SINO Gas & Energy
中澳煤层气能源

ASX Announcement

25 July 2016

SANJIAOBEI PILOT GAS SALES ALLOCATION AGREEMENT REACHED

- Agreement with PetroChina CBM reached on the allocation of pilot gas sold from the Sanjiaobei PSC
- Sino Gas to receive revenue allocation as prescribed in the PSC for pilot gas proceeds up to a threshold volume prior to Overall Development Plan approval
- Joint Venture's allocation after Overall Development Plan approval unchanged, in line with PSC
- PetroChina commits to support SGE obtaining key regulatory approvals for CRR and ODP in a timely fashion
- ~US$2 million expected to be received in the third quarter of 2016 by the Joint Venture for gross gas sold from the Sanjiaobei PSC to date
- Sanjiaobei CGS to be brought back on-stream and ramped up to full capacity of ~8 MMscf/d over the second half of 2016

Sino Gas & Energy Holdings Limited (ASX: SEH, "**Sino Gas**" or the "**Company**") is pleased to announce that the joint venture company, Sino Gas & Energy Limited (“**SGE**”, “**Joint Venture Company**”) and its PSC partner, PetroChina CBM ("**PCCBM**") (collectively “**the Partners**”) have reached an agreement on the allocation of the outstanding and future pilot gas sales proceeds sourced from the Sanjiaobei PSC. Key principles have been agreed and documented by the Partners with supporting formal agreements and documentation currently being finalised for execution.

Under the terms of the key principles agreed, gas sold from the Sanjiaobei PSC during the pilot production phase, up until Overall Development Plan (“**ODP**”) approval, is to be allocated in accordance with the PSC terms up to a production threshold of 3 billion cubic feet.

This agreement applies only to production volumes from the Sanjiaobei PSC and does not affect the pilot gas production from the Linxing PSC processed through the Sanjiaobei Central Gathering Station ("**CGS**"). The majority of wells currently tied into the Sanjiaobei CGS and resulting production is from the Linxing PSC. Given the flexibility to produce from both PSCs via the Sanjiaobei CGS, Sino Gas believes it unlikely the threshold volume for the Sanjiaobei PSC will be exceeded prior to ODP approval.

However, there are no restrictions on the ramp-up of Sanjiaobei production during the pilot phase and if cumulative production from the Sanjiaobei PSC prior to ODP approval is greater than this threshold, the gas volumes in excess of the threshold will be allocated 30% to the Joint Venture company and 70% to PCCBM.

The Joint Venture's share of Sanjiaobei revenue and cost recovery pools after ODP remain unchanged by this agreement.

Processing of the outstanding pilot gas sales proceeds payment will be completed upon finalisation of the formal agreements, following which, Sino Gas expects ~US$2 million equivalent to be received by SGE (~US$1 million net to Sino Gas) in the third quarter of 2016.

Preparation works for restarting the Sanjiaobei CGS are well underway to allow for the safe resumption of production. Production is expected to be brought on-stream and ramped up towards installed capacity of 8 million standard cubic feet per day (MMscf/d) over the second half of 2016. This production ramp-up contributes to the Company's stated objective of a 2016 gross production exit rate of 25 MMscf/d. Operations are currently on-track to achieve this objective.

Commenting on the agreement with PCCBM, Sino Gas Managing Director Mr Glenn Corrie said: *"This is a good outcome for Sino Gas as the agreement to allocate pilot gas sales revenues adheres to the principles of the PSC up to the threshold volume. In addition, PCCBM will support SGE in obtaining Chinese Reserve Reports (CRR) and ODP approvals in an accelerated manner. We appreciate PCCBM's support to resolve the pilot gas sales allocation matter and ongoing commitment to work together to realise the full value of the Sanjiaobei field. We are looking forward to the imminent receipt of gas sales proceeds and the restart of production from the Sanjiaobei CGS. Resolution of this matter provides us a clear path forward to our stated objective of exiting 2016 with production of 25 MMscf/d and the continued ramp-up of production in future years."*

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About Sino Gas & Energy Holdings Limited

Sino Gas & Energy Holdings Limited ("Sino Gas" ASX: SEH) is an Australian energy company focused on developing natural gas assets in China. Sino Gas holds a 49% interest in Sino Gas & Energy Limited ("SGE"), a strategic partnership with China New Energy Mining Limited ("CNEML"). SGE has been established in Beijing since 2006 and is the operator of the Linxing and Sanjiaobei Production Sharing Contracts (PSCs) in the Ordos Basin, Shanxi province.

SGE's interest in the Linxing PSC with CUCBM is 64.75% and 49% for the Sanjiaobei PSC held with PCCBM. SGE has a 100% working interest during the exploration phase of the PSC, with SGE's PSC partners being entitled to back-in upon Overall Development Plan (ODP) approval, by contributing development and operating costs in line with their PSC interest.

The PSCs are located in the Ordos Basin and cover an area of approximately 3,000km^2. The Ordos Basin is the largest onshore gas producing basin in China. The region has mature field developments with an established pipeline infrastructure to major markets. Rapid economic development is being experienced in the provinces in which Sino Gas' PSCs are located and natural gas is seen as a key component of clean energy supply in China.

Sino Gas & Energy Holdings Limited (ASX: SEH) was admitted to the Official List of ASX in 2009.

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